

**DOCKET SECTION**

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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**POSTAL RATE AND FEE CHANGES, 1997**

Docket No. R97-1

**NOTICE OF FILING AND SERVICE OF ERRATA  
TO PREPARED TESTIMONY OF MAJOR MAILERS ASSOCIATION  
WITNESS RICHARD E. BENTLEY  
(MMA-T-1 and Exhibit MMA-1C)**

Major Mailers Association (MMA) hereby notes that it is filing and serving revised pages to its witness Bentley's prepared testimony and exhibits, filed on December 30, 1997 in order to correct two errors.

MMA-T-1, page 20. On line 7 of this page, MMA has eliminated an incorrect citation to "USPS/MMA-T32-23."

MMA-T-1, page 5. On lines 2-3 of this page, MMA has changed the words, "69 percent" to "39 percent." Corresponding changes have been made in a bar graph on Figure 1 on page 5A and in Exhibits MMA-1C, pages 1, 2 and 3. The reasons for this change are explained in Mr. Bentley's Response to Interrogatory VP-CW/MMA-T1-4, filed on February 10, 1998. Copies of the changed pages are attached, and a new disk has been filed with the Commission.

Respectfully submitted,



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February 13, 1998

1 contribute 55 percent of total mail revenues (See Figure 1 and Exh. MMA-1C, p.1). In  
2 contrast, Commercial Standard A mail, which accounts for 34 percent of volume and 39  
3 percent of weight, is being asked to provide only 20 percent of total mail revenues (*Id.*).  
4 Although First-Class Mail and Standard A mail are processed differently in some respects,  
5 any differences in costs between the two mail types are already reflected in *attributable*  
6 costs, and First-Class Mail is required to generate almost three times as much to total  
7 revenue as commercial standard mail. (*Id.*).

8 The Postal Service accomplishes its overcharging of First-Class Mail by burdening  
9 that class with an excessive share of institutional (or overhead) costs.

10 In past cases, the Commission has condemned this practice. In Docket No. R87-  
11 1, the Commission articulated its "general goal" to set "First-Class cost coverage...close  
12 to the system wide average," while third-class bulk mail (now Standard A Mail) should  
13 move towards a cost coverage "near average" (R87-1 Op., pp. 367, 380). In Docket No.  
14 R90-1, the Commission expressed displeasure about "perpetuat[ing]" a "situation in which  
15 First-Class mailers are providing revenues which more properly should be provided by  
16 third-class mailers.... (R90-1 Op., pp. IV 33-34). In Docket No. R94-1, the Commission  
17 rejected a proposed settlement that "would only amplify the distortion" in the two mail  
18 types' contribution to institutional costs (R94-1 Op., p. IV 16). Finally, in Docket No.  
19 MC95-1, the Commission reaffirmed its "view that the largest volume subclasses in First-  
20 Class and Standard Mail should have roughly equivalent markup indices" (Docket No.  
21 MC95-1, pp. 1-8).

22 In these past cases, the Commission has used a number of measurements to

**C. The Service's Own Studies**

In past studies, the Service's technical staff has uniformly found that the cost of processing two-ounce letters is no more than the cost of processing one-ounce letters, and that staff has stated that the additional charge for two-ounce letters is excessive and should be eliminated. But, although the Commission has repeatedly requested the Service to provide data on the costs of additional-ounce letters, the Service has not done so, saying that it has performed no new studies. (See Tr.4:1438-46.)

**D. Postal Service Witnesses Assume That Weight Has No Impact On Processing Cost**

Finally, Postal Service witnesses implicitly assume that weight has no bearing whatsoever on labor costs in their mail flow analyses that support rates proposed for First-Class and Standard A. Both USPS witnesses Hatfield and Daniel simply assumed identical labor productivity rates for average letters within each class. Yet, Standard A letters weigh on average over 50% more than First-Class letters. Therefore, the Service has assumed in this situation that processing costs do not change if a letter weighs between one and two ounces or under one ounce.

**E. Comparison With Previous Proposal**

In Docket No. MC95-1, I offered a somewhat different proposal for reducing additional-ounce rates for First-Class letters. As explained in Attachment 2 to this testimony, I have now modified that proposal in ways that obviate the Commission's objections to my Docket No. MC95-1 proposal.

**VI. CONCLUSION**

In previous rate cases, the Commission has made some reductions in First-Class Mail's burden of institutional costs, but it has also had to defer greater reductions because

Comparison of Selected TY AR First-Class and Commercial Standard A Data  
(Millions)

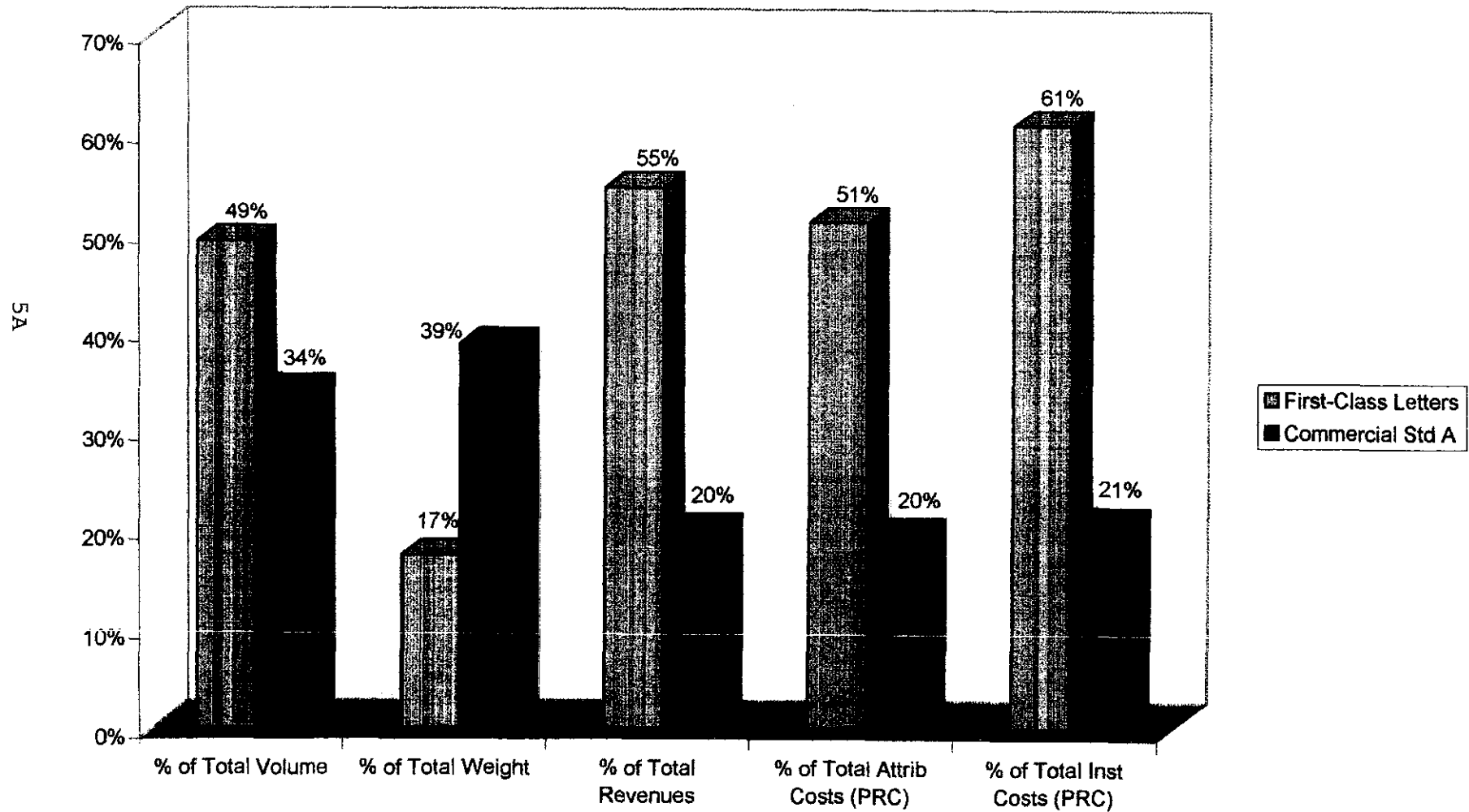
Exhibit MMA-1C  
Page 1 of 5

	(1)	(2)	(3)	(4)	
			First-Class and Standard Mail A		
<u>TY AR Data</u>	<u>First-Class Letters</u>	<u>Commercial Std A</u>	<u>Total</u>	<u>Total All Mail</u>	<u>Source</u>
1 Volume (Pieces)	95,551	66,314	161,865	194,387	Exhibit USPS30G (Rev. 8/22/97)
2 % of Total Volume	49%	34%			
3 Weight (Pounds)	4,075	9,095	13,170	23,489	Exhibit USPS15J, pp. 15,
4 % of Total Weight	17%	39%			
5 Revenues	\$33,615	\$12,326	\$45,941	\$61,530	Exhibit USPS-30B (Rev. 9/19/97)
6 % of Total Revenues	55%	20%			
7 Attributable Costs (USPS)	\$16,806	\$7,077	\$23,883	\$34,486	Exhibit USPS-30B (Rev. 9/19/97)
8 % of Total Attrib Costs (USPS)	49%	21%			
9 Attributable Costs (PRC)	\$20,250	\$7,780	\$28,030	\$39,597	Exhibit PRC-30B (Rev.10/23/97)
10 % of Total Attrib Costs (PRC)	51%	20%			
11 Institutional Costs (USPS)	\$16,809	\$5,249	\$22,058	\$27,044	Line 5 - Line 7
12 % of Total Inst Costs (USPS)	62%	19%			
13 Institutional Costs (PRC)	\$13,365	\$4,546	\$17,911	\$21,933	Line 5 - Line 9
14 % of Total Inst Costs (PRC)	61%	21%			
15 Unit Revenue	\$.35	\$.19	\$.28	\$.32	Line 5 / Line 1
16 Unit Attributable Cost (USPS)	\$.18	\$.11	\$.15	\$.18	Line 7 / Line 1
17 Unit Attributable Cost (PRC)	\$.21	\$.12	\$.17	\$.20	Line 9 / Line 1
18 Unit Contrib to Inst Costs (USPS)	\$.18	\$.08	\$.14	\$.14	Line 11 / Line 1
19 Unit Contrib to Inst Costs (PRC)	\$.14	\$.07	\$.11	\$.11	Line 13 / Line 1

<u>TY AR Data</u>	<u>First-Class Letters</u>	<u>Commercial Std A</u>	<u>First + Standard</u>	<u>All Mail</u>	
20 Volume (Pieces)	95,551	66,314	161,865	194,387	Exhibit USPS30G (Rev. 8/22/97)
21 Revenues	\$33,615	\$12,326	\$45,941	\$61,530	Exhibit USPS-30B (Rev. 9/19/97)
22 Attributable Costs (USPS)	\$16,806	\$7,077	\$23,883	\$34,486	Exhibit USPS-30B (Rev. 9/19/97)
23 Attributable Costs (PRC)	\$20,250	\$7,780	\$28,030	\$39,597	Exhibit PRC-30B (Rev.10/23/97)
24 Unit Revenues	\$.35	\$.19	\$.28	\$.32	Line 21 / Line 20
25 Unit Attributable Costs (USPS)	\$.18	\$.11	\$.15	\$.18	Line 22 / Line 20
26 Unit Attributable Costs (PRC)	\$.21	\$.12	\$.17	\$.20	Line 23 / Line 20
27 Unit Contrib to Inst Costs (USPS)	\$.18	\$.08	\$.14	\$.14	Line 24 - Line 25
28 Unit Contrib to Inst Costs (PRC)	\$.14	\$.07	\$.11	\$.11	Line 24 - Line 26

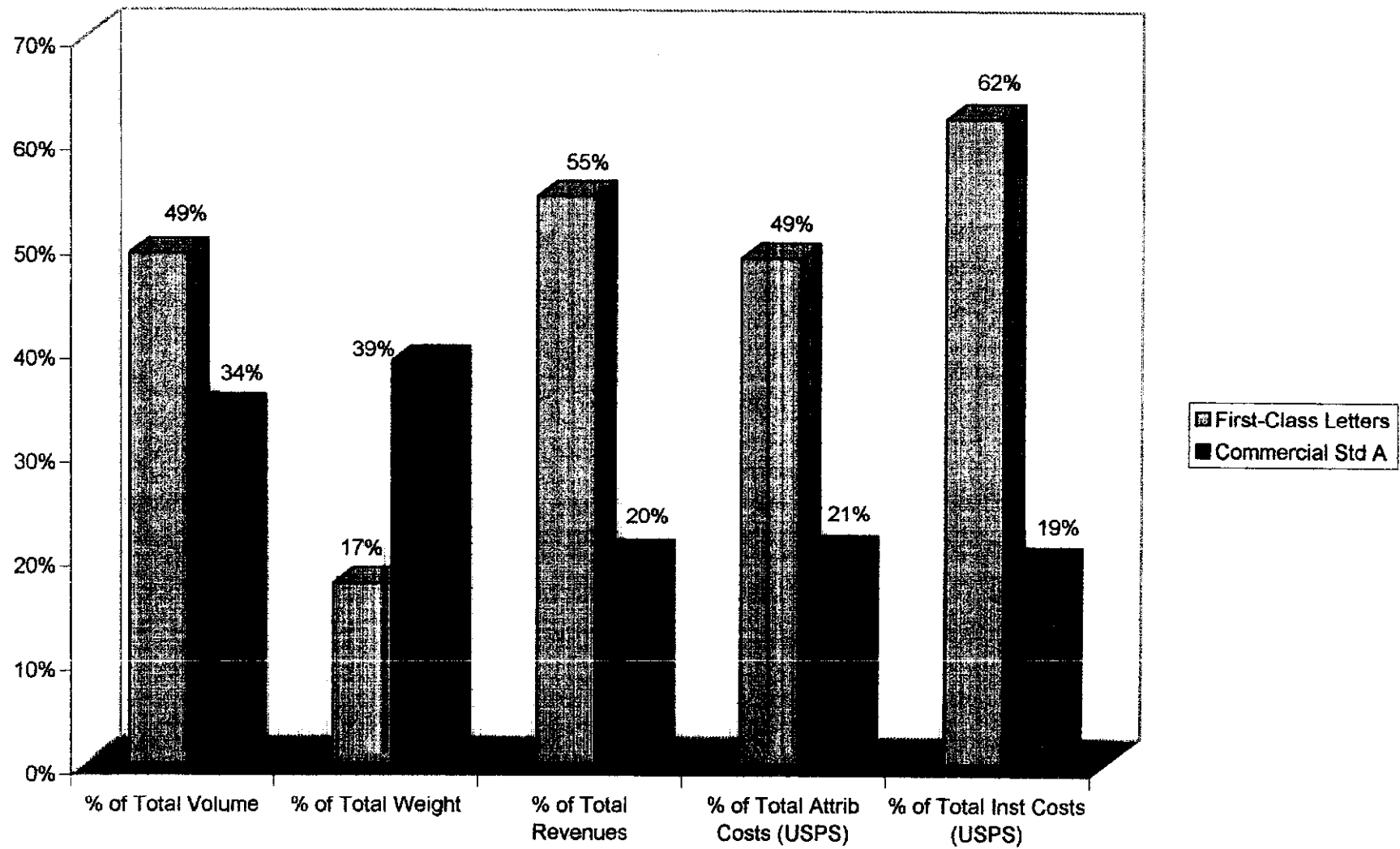
**Figure 1: Comparison of First-Class and Commercial Standard A  
Using PRC Cost Methodology  
(Docket No. R97-1, TY AR)**

(Revised 2/11/98)



**Comparison of First-Class and Commercial Standard A Using USPS Cost Methodology  
(Docket No. R97-1, TY AR)**

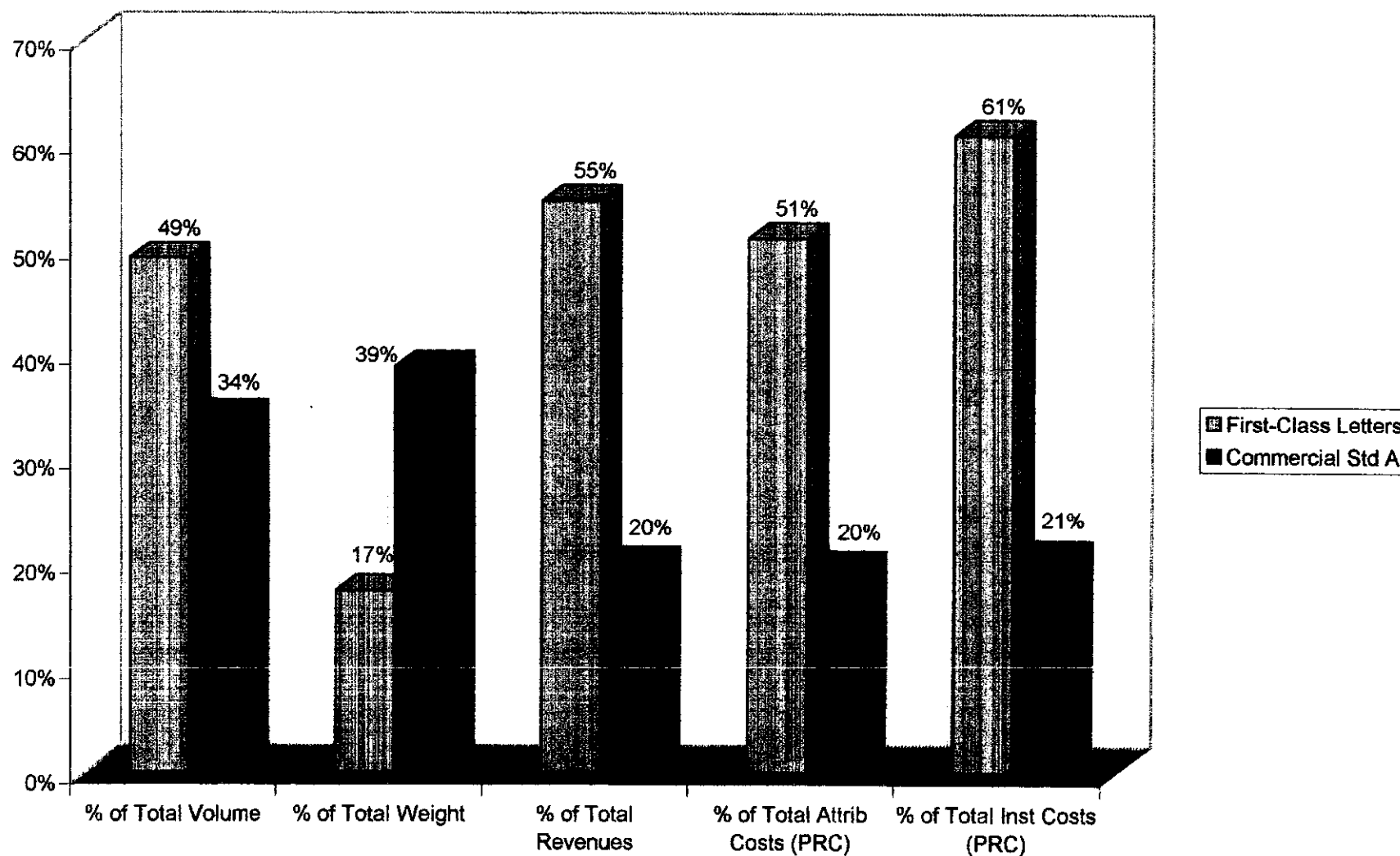
Exhibit MMA-1C  
Page 2 of 5  
Revised (2/11/98)



(Original Filed In Color)

**Comparison of First-Class and Commercial Standard A Using PRC Cost Methodology**  
**(Docket No. R97-1, TY AR)**

Exhibit MMA-1C  
Page 3 of 5  
(Revised 2/11/98)



# CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

February 13, 1998

  
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Jeff Plummer